No. 16-1011

IN THE

# Supreme Court of the United States

WESTERNGECO LLC,

*Petitioner,*

*v.*

ION GEOPHYSICAL CORPORATION,

*Respondent.*

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

## *AMICUS CURIAE* BRIEF OF LAW PROFESSOR STEPHEN YELDERMAN IN SUPPORT OF PETITIONER


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## INTEREST OF *AMICUS CURIAE*

*Amicus curiae* is a full-time professor of remedies and patent law with an interest in the development of patent doctrine in a manner that is consistent with common law principles.[1]

## SUMMARY OF THE ARGUMENT

Smith owns a factory in the United States. Typically, Smith sells the products of that factory in both domestic and international markets. But, as a result of his neighbor Jones's negligence, Smith's factory is seriously damaged, and must close for several months of repairs. Smith sues Jones, seeking to recover not just the cost of the repairs, but also the profits Smith would have earned if Jones's negligence had not forced the factory to close.

Common law damages doctrines erect a number of barriers Smith must clear to collect the full measure of damages he seeks. Smith must prove that he really would have made those lost sales in a world where Jones had not been negligent—that is, that Jones's negligence was

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1. No party's counsel authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund its preparation or submission. Notre Dame Law School provides financial support for activities related to faculty members' research and scholarship, which helped defray the costs of preparing this brief. (The School is not a signatory to the brief, and the views expressed here are those of the *amicus curiae*.) Otherwise, no person or entity other than the *amicus curiae* or his counsel has made a monetary contribution intended to fund the preparation or submission of this brief. The parties have consented to this filing, and those consents are on file with the Clerk.

a but-for cause of the claimed losses. Smith must further establish that Jones's negligence was the proximate cause of Smith's lost sales—that these business losses were not too remote a result of Jones's actions. Moreover, it will not be enough to show that some indeterminate amount of profits was lost because of Jones; Smith will have to introduce evidence sufficient for a factfinder to arrive at a specific number, and that specific number will have to be supported with reasonable certainty. If Smith's business is new or otherwise lacks a clear track record, his task will be even more difficult.

Still, there is one fact here that does not, in and of itself, erect an additional hazard for Smith in his quest for lost profits: the fact that his business involved selling his wares both at home and abroad. Once the tort is complete and liability proven, the compensatory damages question that remains is a simple one—how to make Smith whole. Longstanding remedial principles provide no basis for drawing a line at the water's edge, requiring a factfinder to don blinders against the very real harms Smith may have suffered in foreign markets as the direct result of Jones's tortious acts in the United States. Drawing such a line would subvert the fundamental goal of compensatory damages: that the prevailing plaintiff be placed, as nearly as possible, in the position he would have enjoyed absent the wrong.

This simple example is, of course, not before the Court. But it contains within it every principle necessary to decide this case. Changing the claim from simple negligence to infringement of an intellectual property right does not disturb time-honored remedial doctrines, certainly well-known to Congress, and codified in the 1952 Patent Act.

Nor does it matter that this damages dispute arises from a comparatively obscure provision of the infringement statute, 35 U.S.C. § 271(f), one that was added later for the very purpose of expanding the territorial reach of U.S. patent law. Although these details help Petitioner's cause, they should not obscure the deeper mischief afoot. The Federal Circuit's error is, at root, a departure from well-established damages doctrine, and so transcends the particular theory of infringement liability that happens to be presented in this case.

To correct the error below, the Federal Circuit should be reversed in broad terms, making clear that traditional damages principles apply in patent cases like any other.

## ARGUMENT

The Patent Act's infringement statute is complex, but its damages provision is straightforward. "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court." 35 U.S.C. § 284. The statute goes on to permit trebling of damages; other provisions authorize awards of attorneys' fees (§ 285) and issuance of injunctions (§ 283).

Congress did not draw the words "damages adequate to compensate for the infringement" from the ether. Those words have a long provenance at common law, and, in choosing those words, Congress indicated that a particular remedial model was mandatory in cases in which patent infringement had been proven. Prevailing patent holders

no longer had the option of receiving an accounting for profits, as they had prior to 1946. *See* R.S. § 4921, as amended, 42 Stat. 392; *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505-06 (1964) (plurality opinion) (explaining 1946 amendments). Nor were patent holders entitled to statutory damages, as copyright holders then enjoyed under the Copyright Act of 1909. *See* Pub. L. No. 60-349, § 25(b), 35 Stat. 1075, 1081 (1909); *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 349-54 (1998) (recounting history of statutory damages in copyright). Rather, from the menu of familiar remedial schemes, Congress selected *compensatory* (or "actual") damages in particular, and in so doing made an informed choice to bring along the accompanying doctrines that applied at common law. *See Beck v. Prupis*, 529 U.S. 494, 500-01 (2000) ("[W]hen Congress uses language with a settled meaning at common law, Congress 'presumably knows and adopts the cluster of ideas that were attached to each borrowed word in the body of learning from which it was taken and the meaning its use will convey to the judicial mind unless otherwise instructed.'" (quoting *Morissette v. United States*, 342 U.S. 246, 263 (1952))).

By using the words "damages adequate to compensate for the infringement," Congress did two things. First, it provided a principle of measurement to guide fact-finders in their assessment of patent damages. Specifically, a prevailing patentee should be restored to her rightful position—that is, the pecuniary position she would have enjoyed absent the infringement. *See Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 552 (1886). Second, Congress incorporated a well-developed body of law informing how that principle of measurement should be implemented. These doctrines—comprising causation requirements,

evidentiary burdens, and prudential rules—channel, and in some cases limit, the availability of compensatory damages in patent cases.

In a line of cases starting with its decision in *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348 (Fed. Cir. 2013), the Federal Circuit has developed a novel, territorial limit on the evidence a patentee may use to prove the harm caused by a domestic act of infringement. This additional hurdle to compensatory damages was unknown at common law, and subverts the goal of providing a patentee "full compensation for any damages he suffered as a result of the infringement." *See General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983) (internal quotation marks omitted).

The Federal Circuit principally rooted its novel rule in the presumption against extraterritoriality. *See* Pet. App. 41a-45a; *Power Integrations*, 711 F.3d at 1371-72. The petitioner has ably shown why this was a misreading of this Court's precedents: the presumption of extraterritoriality is simply irrelevant to the measure of damages once liability is established. *See* Petitioner's Opening Brief at 28-34, 46-48. These arguments will not be repeated here.

This brief instead addresses the presumption that *does* apply in this case, and which the Federal Circuit failed to heed: the "presumption favoring the retention of long-established and familiar principles" of the law of remedies. *See Nken v. Holder*, 556 U.S. 418, 433 (2009). By any measure, the Federal Circuit has departed from the foundational principles of compensatory damages that

have applied in patent, tort, contract, and other cases for well over a century. This was error. As this Court has made clear, "[p]atent law is governed by the same common-law principles, methods of statutory interpretation, and procedural rules as other areas of civil litigation." *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954, 964 (2017). A broad reversal is necessary to restore common law damages principles in patent cases.

## I. A Territorial Limit on Evidence of Harm Is Inconsistent with the Rightful Position Principle

The central tenet of compensatory damages is that the plaintiff should be restored to the position she enjoyed prior to the wrong. As Lord Blackburn explained, these damages are "that sum of money which will put the party who has been injured, or who has suffered, in the same position as he would have been in if he had not sustained the wrong for which he is now getting his compensation." *Livingstone v. Rawyards Coal Co.*, (1880) 5 App. Cas. 25 (H.L.) 39; *see also* Restatement (First) of Torts § 903 cmt. a (1939) ("Where there has been harm only to the pecuniary interests of a person, compensatory damages are designed to place him in a position substantially equivalent in a pecuniary way to that which he would occupy had no tort been committed."). In a patent case, the measure of compensatory damages is thus "the difference between [the patentee's] pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." *Yale Lock*, 117 U.S. at 552. The proposition that actual damages should return the plaintiff to the pecuniary position she would have been in but-for the wrong is unimpeachable—it is the founding

principle of the compensatory damages remedy. *See Birdsall v. Coolidge*, 93 U.S. 64, 64 (1876) ("Compensatory damages . . . shall be the result of the injury alleged and proved, and that the amount awarded shall be precisely commensurate with the injury suffered, neither more nor less, whether the injury be to the person or estate of the complaining party."); *Wicker v. Hoppock*, 73 U.S. (6 Wall.) 94, 99 (1867) ("The general rule is, that when a wrong has been done, and the law gives a remedy, the compensation shall be equal to the injury . . . The injured party is to be placed, as near as may be, in the situation he would have occupied if the wrong had not been committed."); 2 Simon Greenleaf, *Treatise on the Law of Evidence* § 253 (16th ed. 1899) ("[Damages] should be precisely commensurate with the injury, neither more nor less").

One way infringement may leave a patentee in an inferior pecuniary condition is through the loss of profits that the patentee would have made but-for the infringement. When the patent holder must compete with an infringer, she may suffer in terms of lower price, lost volume, or both, and as a result may collect a smaller amount of profits than she would have had the infringer respected her patent rights. *See McSherry Mfg. Co. v. Dowagiac Mfg. Co.*, 163 F. 34, 35 (6th Cir. 1908); *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1065 (Fed. Cir. 1983); 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 1061 (1890). The rule for this calculation is easy to state. Lost profits are simply "the difference between the money [the patentee] would have realized from such sales if the infringement had not interfered with such monopoly, and the money he did realize from such sales." *Yale Lock*, 117 U.S. at 552-53; *see also Aro Mfg.*, 377 U.S. at 507 ("[The] question [is]

primarily, had the Infringer not infringed, what would [the] Patentee Holder–Licensee have made?"). Such a sum puts the patentee in the pecuniary position she would have enjoyed in a world without patent infringement, thus achieving the fundamental purpose of compensatory damages: restoring the plaintiff to her rightful position.

The Federal Circuit has lost sight of this basic principle. When the victim of domestic patent infringement happens to earn some portion of her profits overseas, those profits are simply imagined out of existence. *See* Pet. App. 44a; *Power Integrations*, 711 F.3d at 1371. Critically, the case before the Court was *not* decided based on a failure of proof, doubts about actual causation, or because the harms were too remote—a holding on any of those grounds could have had very strong footing in a number of long-recognized damages rules. *See infra* Part III. Instead, the Federal Circuit denied lost profits only because measuring the actual harm done to the plaintiff would require taking notice of the foreign consequences of domestic infringement. *See* Pet. App. 41a–44a. This per se, categorical limit on evidence of harm has no antecedent in longstanding remedial practice, *see infra* Part II, and leaves the patentee in a position that is openly inferior to the position she would have enjoyed but-for the domestic acts of infringement.

To illustrate how this artificial blinder subverts the rightful position principle, suppose the holder of a U.S. patent has a well-established business using her patented tool in Texas and Louisiana. Each year, the patent holder earns $2 million in profit by using this tool in Texas and another $1 million in profit by using this tool in Louisiana. A competitor begins making his own version of the

patented tool and selling it to customers in Texas, directly infringing the patent under § 271(a). These customers in turn compete with the patent holder by using the tool to perform work in both Texas and Louisiana. As a result of this new competition, the patentee's profits drop to zero for a year. Then infringement ceases, and the patentee's profits return to their $3 million annual level.

No one would dispute that the sum necessary to restore the patent holder to her rightful position is $3 million. Had the other manufacturer not infringed, the patentee would have earned $2 million in annual profits from work in Texas and $1 million in annual profits from work in Louisiana. Instead, she earned nothing. Compensatory damages call for restoring the plaintiff to her rightful position, so the plaintiff should be awarded the full $3 million. On these facts, the *en banc* Federal Circuit would seem to agree. *See Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995) ("[T]o refuse to award reasonably foreseeable damages necessary to make [the patentee] whole would be inconsistent with the meaning of § 284.").

But if we change the facts slightly so that the patent holder is using her patented tool not in Texas and Louisiana but in Texas and *France*, her quest for full compensation will encounter the Federal Circuit's recently developed territorial limit. The $2 million of profits lost in Texas would remain cognizable, but the court would deny recovery of the $1 million of profits lost in France. See Pet. App. 42a ("[U]nder § 271(a) the export of a finished product cannot create liability for extraterritorial use of that product."). The patentee's total recovery would now be capped at $2 million.

This change in outcome is remarkable, because nothing about the infringing conduct has changed—the other manufacturer is still infringing under § 271(a), at the same volume, still in Texas, through the manufacture and sale of the patented tool. Moreover, the harm those domestic acts of infringement have done to the patentee is the same too—she is still $3 million worse off as a direct result of the infringement. But, because the patent holder's business is now vulnerable in a different market—she is losing profits in Texas and France, not Texas and Louisiana—the Federal Circuit would stop short of restoring her rightful position.

This departure from the rightful position principle is not the product of a peculiar example. Taken to its logical conclusion, the Federal Circuit's territorial limit on evidence of harm will lead to damages that fail to restore the patentee to her rightful position in *all* cases in which some portion of her lost profits would have come from overseas. That result is inconsistent with the basic goal of compensatory damages, and should be sustained only if it can find support in some other, well-established remedial doctrine. It cannot.

## II. A Territorial Limit on Evidence of Harm Is Inconsistent with Longstanding Remedial Practice

To be sure, the principle that a plaintiff should be restored to her rightful position is not absolute. A number of rules and requirements for damages were developed at common law, and these doctrines were incorporated along with the rightful position principle in § 284. *See infra* Part III. But, critically, a territorial limit on evidence of harm was not among them. To the contrary, until the Federal

Circuit's recent innovation in *Power Integrations*, it was uncontroversial that providing full compensation for a domestic wrong would sometimes require taking account of foreign consequences.

A number of early patent cases are difficult to reconcile with the Federal Circuit's territorial limit on evidence of harm. For example, in *Ketchum Harvester Co. v. Johnson Harvester Co.*, 8 F. 586 (C.C.N.D.N.Y 1881), the infringer produced the patented machine in the United States, which it then sold both here and abroad. Everyone agreed the act of selling outside the United States did not constitute infringement; the only question was what damages the patentee could receive for each unit that was manufactured domestically but sold abroad. The infringer argued that the patentee should be limited to nominal damages for these units, as any harm suffered by the patentee came from the foreign act of sale, rather than the domestic step of manufacture. Justice Blatchford rejected this territorial limit on evidence of harm, explaining:

> It is true that the sale is the fruition, and gives the profit, and that the sale is abroad, and the patent does not cover the sale abroad. But the unlawful act of making is made hurtful by a sale, wherever made . . . [T]o deprive the patentee of all damages for unlawful making here, because the article is sold abroad, is to deprive him of part of what his patent secures to him.

*Id.* at 587.

This holding is directly contrary to the Federal Circuit's rule that a court may not take notice of the foreign consequences flowing from domestic acts of infringement. After all, if the defendant had been making the infringing machines simply for the sake of storing them in a warehouse (or, say, to use them as firewood), the patentee would have been unable to prove any harm, and thus would have been eligible only for nominal damages. *See id.*; *Whittemore v. Cutter*, 29 F. Cas. 1123, 1125 (C.C.D. Mass. 1813) (No. 17,601).[2] It was the defendant's foreign sale that magnified the harm of the domestic infringement, and it was this same foreign sale that made the patentee eligible for something more than nominal damages. Once a domestic act of infringement was proven, "it is no injustice to attribute to the unlawful act all the consequences which flow from it"—even if those consequences unfold outside the United States. *See Ketchum Harvester*, 8 F. at 587.

Thus, contrary to the Federal Circuit's suggestion in *Power Integrations*, *see* 711 F.3d at 1371, the question of how the rightful position principle interacts with the territorial limits of intellectual property is not new. And until quite recently, the answer was clear: "The act of infringement having been committed in this country, the subsequent acts abroad are immaterial, *except upon the*

2. At the time of *Ketchum Harvester*, a patentee unable to prove actual harm would have received only nominal damages. However, this Court later approved use of a reasonable royalty as a fallback method in cases in which other measures of harm defied proof. *See Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 648-50 (1915). This reasonable royalty floor is now required by statute. *See* 35 U.S.C. § 284 (stating that the Court shall award damages "in no event less than a reasonable royalty for the use made of the invention by the infringer").

*question of damages*." *Fishel v. Lueckel*, 53 F. 499, 501 (C.C.S.D.N.Y. 1892) (emphasis added). Indeed, a number of pre-1952 patent cases, in both law and equity, expressly contemplate awards based on consequences that unfold overseas. *See Ketchum Harvester*, 8 F. at 586-87 (awarding non-nominal damages as a result of foreign sales); *Goulds' Mfg. Co. v. Cowing*, 105 U.S. 253, 254-56 (1881) (accounting for profits of infringing pumps manufactured in U.S. but sold in Canada); *K. W. Ignition Co. v. Temco Elec. Motor Co.*, 283 F. 873, 874, 879-80 (6th Cir. 1922) (accounting for profits of foreign sales (citing *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915))). Copyright owners could likewise look overseas to establish their entitlement to a particular remedy. *See Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52-54 (2d Cir. 1939) (citing *Goulds'* and *Dowagiac* to permit recovery of profits made through foreign use of a domestically manufactured copy), *aff'd*, 309 U.S. 390 (1940).

But it is not just patent and copyright plaintiffs who have long been permitted to bring foreign evidence to establish their rightful position. In fact, cases from many disparate areas of law have consistently reached or implied the same conclusion. For example, by the early twentieth century it was well established in both courts of law and admiralty that a ship owner could recover damages for loss of use of a vessel that was improperly detained or otherwise delayed. *See* 1 Theodore Sedgwick, et al., *Treatise on the Measure of Damages* § 196 (9th ed. 1912). If the law of damages recognized a territorial limit on cognizable harm like the one the Federal Circuit has applied in this case, the lost profits claims of these ship owners would have encountered it constantly. For example, if damages cannot account for foreign consequences, loss

of use of a ship would frequently be limited to profits from domestic ports of call, and forsaken freight charges prorated to account for noncompensable mileage upon the high seas. But none of these cases even hint at such a limit. *See, e.g., Williamson v. Barrett*, 54 U.S. (13 How.) 101, 111-12 (1851); *Sturgis v. Clough*, 68 U.S. (1 Wall.) 269, 271-72 (1863); *The Margaret J. Sanford*, 37 F. 148, 149-52 (C.C.S.D.N.Y. 1888) (evaluating evidence of profits that a ship would have earned if damage suffered in New York had not delayed her return to Bombay); *The Gazelle* (1844) 2 W. Rob. 279, 166 Eng. Rep. 759 (High Ct. of Adm.) ("In estimating the amount of the compensation to be paid for the detention of the vessel . . . the suffering party [should be put] as nearly as possible in the same situation in which he would have been if no collision had taken place."). Nor can this territorial limit be found in any number of tort or contract cases presenting facts where such a limit might have come into play. *See, e.g., Dennis v. Maxfield*, 92 Mass. (10 Allen) 138 (Mass. 1865) (breach of contract to share proceeds of whaling expedition); *Welch v. Ware*, 32 Mich. 77 (Mich. 1875) (lost income of traveling actor waylaid by assault); *Armendiaz v. Stillman*, 54 Tex. 623, 627-28 (Tex. 1881) (action for damages against Texas property owner whose incursions into Rio Grande caused destruction in Mexico); *Koninklijke Luchtvaart Maatschaapij, N. V. v. United Technologies Corp.*, 610 F.2d 1052, 1053-56 (2d Cir. 1979) (loss of use damages for defective international airliner).

The Federal Circuit's territorial limit on evidence of harm thus stands as a sharp departure from longstanding remedial practice. It appears to have no antecedent in cases of infringement, trespass, libel, or breach of contract, whether heard in courts of law, equity, or

admiralty. It therefore would have been most surprising to the 1952 Congress that crafted § 284 to provide damages "adequate to compensate for the infringement." And, as a novel, atextual limit on the rightful position principle, it contravenes the presumption that Congress sought to preserve rather than displace longstanding remedial doctrines. *See Nken*, 556 U.S. at 1760.

## III. A Number of Well-Established Doctrines Are Available to Limit Claims of Lost Profits

Restoring the longstanding practice of permitting plaintiffs to introduce evidence of foreign harm would in no sense break open the coffers of boundless patent damages. To the contrary, a number of limits on damages—relating to issues like causation, proof, and other matters—were well-established at the time Congress drafted the 1952 Patent Act. These doctrines were incorporated through Congress's election of "damages adequate to compensate for the infringement" as the measure of monetary relief under § 284. *See Staub v. Proctor Hosp.*, 562 U.S. 411, 417 (2011) ("[W]e start from the premise that when Congress creates a federal tort it adopts the background of general tort law."); *see also Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 532-33 (1983) (noting that Congress assumed the "well-accepted common-law rules" of damages would apply in antitrust litigation). And these longstanding doctrines—the ones the 1952 Congress *had* heard of and presumptively adopted—are quite capable of addressing any concerns that might arise in awarding foreign lost profits.

### 1. Causation-in-fact

To begin, it is well-established that a plaintiff must prove that her claimed injury was actually caused by the wrongful act. *See Carey v. Piphus*, 435 U.S. 247, 254-55, 261-64 (1978) ("The cardinal principle of damages in Anglo-American law is that of compensation for the injury caused to plaintiff by defendant's breach of duty." (internal citation and quotation marks omitted)); 2 Greenleaf § 254 ("All damages must be *the result* of the injury complained of; whether it consists in the withholding of a legal right, or the breach of a duty legally due to the plaintiff." (emphasis in original)). When it comes to claims of lost profits, proof of actual causation is a persistent challenge, since there is no way of knowing for certain what might have been in the counterfactual universe in which the defendant had not committed the tort. *See* 1 Sedgwick § 173 ("Where an injured party claims compensation for gain prevented, the amount of loss is always to some extent conjectural; for there is no way of proving that what might been, what would have been."). Despite this evidentiary difficulty, a patentee nonetheless cannot obtain lost profits without proof of actual causation. "The question," after all, "is not what speculatively [the patentee] may have lost, but what actually he did lose." *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 490 (1854). As a result, "[t]here is no presumption that [the patentee] would have sold its devices to those who purchased the infringing articles." *Oil Well Improvements Co. v. Acme Foundry & Mach. Co.*, 31 F.2d 898, 901 (8th Cir. 1929) (citing *Seymour*, 57 U.S. at 490).

Even in a case of purely domestic competition, the existence of multiple suppliers and non-infringing substitutes can make it quite difficult to prove lost

profits. For example, when there are a number of competing products on the market, both infringing and non-infringing, it may be "impossible to say how many, if any, of the sales made by [the infringer] were sales lost by [the patentee]." *McSherry Mfg. Co. v. Dowagiac Mfg. Co.*, 163 F. 34, 35 (6th Cir. 1908). Even when the patentee and the infringer were the only manufacturers of the patented product at the time, the patentee may still need to bring customer-by-customer evidence to show that her own offering would have been preferable to the non-infringing substitutes on the market. *See Power Specialty Co. v. Connecticut Light & Power Co.*, 80 F.2d 874, 875-77 (2d Cir. 1936). When proof of sales diversion is tough to come by, the patentee may be left to recover lost profits based on only a tiny portion of the infringer's actual sales. *See Oil Well Improvements*, 31 F.2d. at 901. The Federal Circuit has, quite appropriately, continued this demanding tradition when it comes to proving actual causation of lost profits. *See Grain Processing Corp. v. American Maize-Products Co.*, 185 F.3d 1341, 1350 (Fed. Cir. 1999) ("To prevent the hypothetical from lapsing into pure speculation, this court requires sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture."); *Mentor Graphics Corp. v. Eve-USA, Inc.*, 851 F.3d 1275, 1284-86 (Fed. Cir. 2017) (collecting recent Federal Circuit cases and academic commentary to show difficulty of proving but-for causation), *petition for cert. filed*, 86 U.S.L.W. 3299 (U.S. Nov. 30, 2017) (No. 17-804).

Tall as this order may be in an ordinary case, a patentee seeking the profits from sales lost abroad will face an even steeper climb. An obvious question, likely to arise almost any time a patentee attempts such a feat,

is why the defendant could not have just manufactured and sold the accused product abroad, and thus exploited the invention without ever encountering the U.S. patent system? *Cf. Grain Processing*, 185 F.3d at 1350-51 ("[A] fair and accurate reconstruction of the 'but for' market also must take into account, where relevant, alternative actions the infringer foreseeably would have undertaken had he not infringed."). In some cases, this question may prove the death knell for a patentee's quest for foreign lost profits. But in other cases, a patentee might have satisfactory answers. For example, other intellectual property rights, customer relationships, and domestic manufacturing advantages may prevent complete expatriation from being a realistic alternative for the accused infringer. *See Dorsey Revolving Harvester Rake Co. v. Bradley Mfg. Co.*, 7 F. Cas. 946, 947 (C.C.N.D.N.Y. 1874) (No. 4,015) ("A patentee may find it greatly to his advantage, and greatly profitable, to supply a foreign demand for an article of American manufacture, and may be able successfully to compete with foreign machinists in the making . . . [H]is actual monopoly does include all making and selling here, with all the advantages which are incident thereto."). Given all this, proving foreign lost profits may never be easy. But when the U.S. patent holder *can* make that case—when she can show that the foreign lost profits really were the result of the domestic infringement—there is no reason to ignore this evidence of actual causation.

### 2. Proximate Causation

In addition to causation-in-fact, the patentee must show that the defendant's infringing acts were the proximate cause of the claimed lost profits. "For

centuries, it has been a well established principle of the common law, that in all cases of loss, we are to attribute it to the proximate cause, and not to any remote cause." *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390 (2014) (internal quotation marks and modifications omitted); *see also Southern Pac. Co. v. Darnell-Taenzer Lumber Co.*, 245 U.S. 531, 533-34 (1918) ("The general tendency of the law, in regard to damages at least [is not to] . . . attribute remote consequences to a defendant so it holds him liable if proximately the plaintiff has suffered a loss."). At heart, this is a "judicial tool[] used to limit a person's responsibility for the consequences of [his] own acts," *Holmes v. Securities Investor Protection Corp.*, 503 U.S. 258, 268 (1992), rooted in the recognition that it would be impossible to trace the consequences of events ad infinitum. *See Associated Gen. Contractors of Cal., Inc. v. Cal. State Council of Carpenters*, 459 U.S. 519, 532 n.24 (1983).[3]

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3. The Federal Circuit's standard for measuring proximate causation is "objective foreseeability," *see Rite-Hite*, 56 F.3d at 1546, which Petitioner appears to adopt approvingly. *See* Petitioner's Opening Brief at 2, 3, 18, 22, 26, 41, 48, 51-52 & 54. It should be noted, however, that this Court has never announced foreseeability as the operative test for proximate causation in patent law, and that it is far from clear whether it would be appropriate to do so. *Compare Consolidated Rail Corp. v. Gottshall*, 512 U.S. 532, 546 (1994) (explaining, in the context of negligence, that proximate causation and reasonable foreseeability are "functionally equivalent") *with Lexmark*, 134 S. Ct. at 1390-91 (announcing a proximate cause test for false advertising claims without reference to foreseeability); *see also* 1 Sedgwick §§ 139 & 140 (cautioning against use of "foreseeability" in cases in which underlying liability is not founded on negligence). The Court need not reach this question in the present case.

Proximate cause limitations have been an established feature of patent remedies for well over a century. *See Carter v. Baker*, 5 F. Cas. 195, 202 (C.C.D. Cal. 1871) (No. 2,472); *Buerk v. Imhaeuser*, 4 F. Cas. 594, 595 (C.C.S.D.N.Y. 1876) (No. 2,107) ("The damages in such a case must be confined to the direct and immediate consequences of the infringement, and not embrace those which are both remote and conjectural."). Though the earliest cases are vague about the limits of proximate cause in patent law, the 1937 edition of Deller's *Walker on Patents* recites the following theories of harm as being too remote to serve as the basis for compensatory damages:

* The infringement "so unexpectedly reduced the business in the patented article as to make it necessary for [the patentee] to sell unpatented property at less than its real value, or to borrow money at more than a proper rate of interest"

* The infringement "encouraged other persons to infringe, from whom, by reason of insolvency or other obstacle, no recovery can be obtained"

* The infringement "caused the patentee so much trouble and anxiety that he incurred loss from inability to attend to other business"

* The infringement "caused [the patentee] to suffer competition and loss, in business outside the patent infringed".

3 Anthony William Deller, *Walker on Patents* § 832 (1937).

The first three of these examples have clear antecedents in the general law of damages, and seem to have required little explication in the context of patent law. For example, the first is a straightforward application of the well-known rule that a plaintiff may not recover damages on the grounds that the defendant's actions forced him to sell goods at a loss or resulted in a loss of credit. *See* 1 Sedgwick §§ 126c & 127. The fourth, however—that the infringement "caused [the patentee] to suffer competition and loss in business outside the patent infringed"—is by its terms specific to patent law, and so calls for some patent-specific line drawing.

An early circuit court case illustrates how this particular limit on proximate cause has long operated in patent law. In *Piper v. Brown*, 19 F. Cas. 722 (C.C.D. Mass. 1873) (No. 11,181), the patentee sought an accounting of profits from an infringer of his patented fish preservation process. In addition to the profits the infringer earned in the market for preserved salmon, the patentee sought to obtain the profits the infringer earned in the market for fresh (or "green") salmon. The theory, in short, was that the two output markets were tied by a common input market—that by using the patented preservation method, the infringer was able to take more wild salmon out of circulation, and thus was able to raise prices in the market for green salmon as well. *Id.* at 723. The court held that these profits depended "upon future bargains or speculations, or future states of the market," and therefore were too "remote and contingent" to be recoverable. *Id.*

Although additional development may be necessary as future litigants present novel theories, the proximate cause requirement stands ready to prevent patentees from obtaining foreign lost profits that are too far removed from the domestic acts of infringement. For example, suppose a patentee tried to claim that the defendant's domestic infringement had impacted global component supply, and thus had reduced the profitability of the patentee's sales in foreign markets. Even if the patentee could show actual causation on the facts, this damages theory would be foreclosed under the principle of *Piper v. Brown*—a shared input market may not serve as the connection between patented and unpatented output markets. Likewise, a patentee could not invoke domestic infringement as the cause of lost foreign sales on the theory that the infringement had distracted management, deprived the firm of capital, or otherwise increased its operating costs. *See* 3 *Walker on Patents* § 832.

Notably, several of the recent cases in which the Federal Circuit has curtailed damages on "extraterritoriality" grounds were cases in which the patent holder had likely failed to establish that the claimed losses were proximately caused by the defendant's domestic acts of infringement. For example, in *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, 807 F.3d 1283 (Fed. Cir. 2015), the patentee sought to collect a reasonable royalty on chips the defendant had both made and sold abroad. Of course, chips made and sold abroad did not themselves infringe the patent, but the patentee claimed these foreign sales would not have been possible without the benefit of certain design, testing, and customer-integration steps performed in the United States. The foreign sales, the theory went, were the direct result of these infringing pre-production

activities. *Id.* at 1309-11. This theory was ripe for disposal on grounds of proximate cause. But instead of engaging that question and relying on well-established common law principles, the Federal Circuit relied on its nascent extraterritoriality-of-damages jurisprudence, even extending the rule to deny claims for a reasonable royalty. *See Carnegie Mellon*, 807 F.3d at 1306-07 (*citing Power Integrations*, 711 F.3d at 1348, and *WesternGeco LLC v. ION Geophysical Corp.*, 791 F.3d 1340 (Fed. Cir. 2015)).

For its part, *Power Integrations* also involved a remote theory of damages, one which the traditional proximate cause requirement was again well-equipped to handle. There, the patentee argued that the defendant could not have made *any* foreign sales without the infringing domestic sales, on the theory that most customers would insist on using the same chip in all their devices throughout the world. *See* Non-Confidential Brief for Plaintiff-Cross Appellant Power Integrations, Inc. at 44, No. 2011-1218 (Fed Cir. June 22, 2011), 2011 WL 2827447, at *44. This claim could have been rejected in an unpublished opinion; circuit law already held that a customer preference for purchasing infringing and non-infringing products as a package was too remote a connection to obtain lost profits on the non-infringing products. *See American Seating Co. v. USSC Grp., Inc.*, 514 F.3d 1262, 1268 (Fed. Cir. 2008). But instead of resting on grounds of proximate cause, the court crafted its newfound territorial limit on damages, thereby setting the course towards the error presently before the Court.

This is not simply a matter of words. The problem with replacing the longstanding requirement of proximate cause with a newfound territorial limitation is that a test

rooted in national borders is simultaneously under- and over-inclusive. To use *Carnegie Mellon* as an example, if the infringing testing and customer integration steps are too far removed to permit damages based on the non-infringing sales of the completed design, the same should be true whether or not a national border is in the way. Whether those eventual chip sales are non-infringing because they occur overseas or because the chips themselves do not embody the claimed invention, they should not be used in the ultimate damages calculation. Likewise, if the only connection between infringing sales and non-infringing sales is a customer preference to purchase in bulk (the causal theory at the heart of *Power Integrations*), that connection should also be rejected as too remote when the bundled sales occur entirely within the United States. A blinkered view of territory overlooks the real concern with damages in many of these cases, and thus creates an improperly narrow rule of decision.

Moreover, asking the wrong question can lead to the wrong answer in the other direction as well. The patentee in *this* case has made an extremely strong showing of proximate causation—the defendant infringed by supplying components of the patented invention to the patentee's direct competitors, who in turn used those very components to take business from the patentee. *See* Petitioner's Opening Brief at 13-14. There is no analogous case to suggest these losses are too remote under traditional understandings of the proximate cause requirement. And yet an artificial territorial line, unknown at common law, has prevented the patentee from recovering the very real losses it suffered.

Admittedly, deciding cases on grounds of proximate cause will require a more nuanced inquiry, at least compared to drawing a bright (but arbitrary) line at the national border. As this Court has recognized, "[t]he proximate-cause inquiry is not easy to define." *Lexmark*, 134 S. Ct. at 1390. The good news is that "courts have a great deal of experience applying it, and there is a wealth of precedent for them to draw upon in doing so." *Id.* Moreover, adherence to common law damages principles requires nothing less.

### 3. Reasonable Certainty, New Businesses, and Other Settled Rules of Compensatory Damages

By adopting remedial language familiar to common law, Congress incorporated a number of additional requirements as well. For example, there is the "cardinal principle . . . that the plaintiff must establish the quantum of his loss, by evidence from which the jury will be able to estimate the extent of his injury, [and] will exclude all such elements of injury as are incapable of being ascertained by the usual rules of evidence to a reasonable degree of certainty." *See Wolcott v. Mount*, 36 N.J.L. 262, 272 (N.J. 1873). At the same time, this reasonable certainty requirement is subject to "modifying doctrines," *see* Charles T. McCormick, *Handbook on the Law of Damages* § 27 (1935), including that "where the defendant by his own wrong has prevented a more precise computation, the jury . . . may make a just and reasonable estimate of the damage based on relevant data." *Bigelow v. RKO Radio Pictures, Inc.*, 327 U.S. 251, 264 (1946). A well-developed body of law addresses the application of this requirement to newly established businesses, *see* 1 Sedgwick §§ 182 & 183, and to the loss of a statistically determinable chance

of profit, *see* McCormick § 31. And courts have long held that a plaintiff's damages should be reduced by the amount the defendant's wrong happened to benefit her—though within limits that have been carefully delineated over more than a century of application. *See Mayo v. City of Springfield*, 138 Mass. 70, 70 (1884); Restatement (Second) of Torts § 920 cmts. a&b (1965).

None of these rules are strictly necessary to cabin lost profits or even to arrive at a workable patent damages regime. But they illustrate the depth of what would be lost if "damages adequate to compensate for the infringement" is to be cut from whole cloth rather than drawn from established remedial principles. Countless damages puzzles have been posed and resolved in the centuries in which these doctrines have done their work—including the very question presently before the Court. These guiding principles serve as the foundation of the patent damages inquiry, and should be abandoned only in the face of a clear congressional statement to that effect.

## CONCLUSION

The error made by the Federal Circuit comes down to fundamental remedial principles, and is not limited to one theory of infringement or another. Although this case comes to the Court after a finding of infringement under § 271(f), the case that began down this path involved the direct infringement provision of § 271(a). *See Power Integrations*, 711 F.3d at 1371-72. And the lower court has since expanded its novel limitation beyond claims of lost profits, invoking *Power Integrations* and the panel opinion in this case to foreclose even reasonable royalties. *See Carnegie Mellon*, 807 F.3d at 1306-07.

Because § 284's damages command applies regardless of the underlying theory of liability, it would be a mistake to leave any ambiguity about the applicability of this Court's ruling to other provisions of § 271. Rather, the Federal Circuit should be reversed on grounds broad enough to put an end to that court's improper curtailing of common law damages doctrines. Just as a "major departure from the long tradition of equity practice should not be lightly implied," *see eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (internal quotation marks omitted), neither should a major departure from traditional damages principles.

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